Q4 2023 Henkel AG & Co KGaA Earnings Call Transcript

Mar 04, 2024 / 08:00AM GMT

Transcript

Q & A

Operator

Good morning and welcome to the Henkel Conference Call. (Operator Instructions)

I will now hand over to Leslie Iltgen, Head of Investor Relations. Please go ahead.

Leslie Isabelle Iltgen
Henkel AG & Co. KGaA - Head of IR

Thank you and good morning to everyone. A warm welcome to everyone joining Henkel's Full Year 2023 Results Conference Call today. I'm Leslie Iltgen, Head of Henkel's Investor Relations. Today, I'm joined by our CEO, Carsten Knobel; and our CFO, Marco Swoboda. Carsten will begin with an overview of 2023 including key achievements and highlights and a first glance at the guidance for full year 2024. Marco will follow with a review of the full year 2023 financial results in more detail and also elaborate on the key assumptions around the 2024 guidance. As always, following the presentation, we will open up the lines and Carsten and Marco will be happy to take your questions.

Before handing over to Carsten, please let me remind you that this call will be recorded and a replay will be made available on our Investor Relations website shortly after this call. By asking a question during the Q&A session, you agree to both the live broadcasting as well as the recording of your question including salutation to be published on our website. Also please be reminded that this presentation contains the usual formal disclaimer in regard to forward-looking statements within the meaning of relevant U.S. legislation. It can also be accessed via our website at henkel.com. As always, the presentation and discussion are conducted subject to this disclaimer.

With this, it is my pleasure to hand over to our CEO, Carsten Knobel. Carsten, please go ahead.

Carsten Knobel
Henkel AG & Co. KGaA - CEO & Chairman of the Management Board - Henkel Management AG

Thank you, Leslie, and a warm welcome also from my side to everyone joining our call today. After highlighting the key developments of the full year, we will walk you through our business performance and the outlook for the full year 2024 in more detail and of course we are looking forward to taking your questions. So let's get started with the major topics and achievements in 2023. In 2023, Henkel delivered a strong top and bottom line growth and that includes a Q4 where we saw a continued strong performance and a further sequential volume development improvement. We clearly overachieved the financial targets we had set ourselves at the beginning of last year. Both business units contributed to this excellent performance. On group level, Henkel recorded very strong organic sales growth of 4.2%. Adhesive Technologies delivered 3.2% OSG, which is clearly above the peer average.

Our Consumer Brands business clearly stood out with 6.1% OSG certainly driven to a large part by strong pricing, but also supported by a sequentially improved volume development. Turning to the margins. With focus and discipline, we made significant progress in restoring our profitability both in terms of adjusted gross profit where we saw an increase of 340 basis points versus the prior year as well as in regard to the adjusted EBIT margin which reached 11.9% on group level, a plus of 150 basis points versus the prior year. This significant increase was supported by strong pricing to further compensate for the still elevated input costs, ongoing measures to reduce cost and enhance production and supply chain efficiency, but also by accelerated savings from the Consumer Brands merger and the continued portfolio optimization measures behind.

At the same time, we are putting strong emphasis on investing in growth. We have been stepping up our marketing investments in the consumer space to further strengthen brand equity and to continue fostering innovations in both business units. Also bear in mind that all of this was achieved despite the fact that we divested our business in Russia, which was over-proportionately profitable. This excellent performance also resulted in an adjusted EPS growth of plus 20% at constant exchange rates for the full year. And on top, we also significantly improved our free cash flow. We reached a new all-time high of EUR 2.6 billion. Backed by the strong financial position, we proposed a stable dividend of EUR 1.85, which represents a payout ratio of 42.4%. That's slightly above the targeted payout range of 30% to 40%. So all in all, a very strong set of results.

Looking to 2024, we had a strong start to the year in both months in January and in February and we are poised for further top and bottom line growth. We're highly confident that we have the right strategy, portfolio and capabilities to deliver on our targets not just in the year 2024, but also when it comes to our mid- to long-term financial ambition. Besides driving financial performance, we are also strengthening our competitiveness. In this context, investing in our innovation capabilities is key for example into new R&D and customer centers. A great example is the new battery engineering center for Adhesive Technologies, which is quite unique in the industry. Unveiling the first battery engineering center here at our headquarters in Germany solidifies our role as a premier design and innovation partner for automotive OEMs and a battery test center.

It allows us to create a digital twin of any battery and simulate the performance of our solutions under various conditions. These can be validated through real life stress tests ensuring both the reliability of our data and the efficacy of our solutions. Another highlight is our new R&D center for Consumer Brands in Shanghai, which we opened just recently. With a floor space of over 2,500 square meters, the center is our largest for consumer brands in the Asia Pacific region. It will focus on both core categories here as well as Laundry & Home Care and it's aiming to attract the best scientific minds and enhance our regional capabilities. For us, this is more than just an R&D facility. It is a hub to foster agile product innovation tailored to the needs and the habits of consumers across 11 diverse markets in Asia.

In parallel, we are also leveraging digitalization across our businesses leading to further organic growth in digital sales as in Consumer Brands where we saw a double-digit increase. In Adhesive Technologies, AI for instance plays an increasing role when it comes to the optimization of formulation properties. Sustainability is yet another important contributor to drive Henkel's competitive edge. Also here we made significant progress. We reduced emissions from operations by 61% compared to the base year 2010. We increased the share of recycled plastic in Consumer Packaging to now 19%. And last, but not least, we brought the share of women in management to around 40%. Plus we are not only delivering on our financial targets, but also continue to focus on these important strategic pillars always backed by a strong company culture and the great people, which we have onboard at Henkel around the globe.

Let me now turn to Adhesive Technologies and the megatrends that clearly serve as catalysts for growth. With the portfolio we have in place already today, we act as an enabler for our customers, offering innovative solutions which support them in their needs and in achieving their respective goals. With the solutions we offer, we foster circularity and recyclability across industries and thus clearly contribute to driving sustainability globally. Mobility is another theme, which plays into our cards. Reliable thermal management and functional coating solutions contribute to more safety in cars and allow large scale production. Thinking of connectivity and the need to extend mobility around the globe, being able to offer high performance solutions for 5G connectivity is absolutely key. Another megatrend is for sure our digitalization, automizing and digitalization of global labs clearly increases the speed and also the impact of innovations.

And last, but not least, when it comes to urbanization, there is for instance a high need for sustainable engineered wood solutions, which allow the construction of multistory buildings, unimaginable until just a few years ago. In

2023, we continued to strengthen our portfolio with innovative solutions providing added value to customers and consumers while shaping the relevant megatrends I just referred to. For example, we launched a new solution for bonding camera lenses in driver assistance systems, which combines production efficiency and performance capability enabling fast and reliable production of cameras for the automotive industry. We further developed our packaging in adhesives making it easier for manufacturers to switch to a more sustainable solvent-free alternative while maintaining quality and sophisticated appearance.

And at the same time, a high standard of food safety is guaranteed. It sounds like a simple solution, however, it is technologically demanding. Just think about coffee for example, which requires sophisticated packaging solutions to maintain its unique properties. To further support the construction industry while pivoting towards sustainable practices, we launched our first biobased polyurethane adhesives for load-bearing timber construction aimed at significantly reducing the CO2 equivalent emissions compared to their fossil-based alternatives. Part of our strategic growth agenda, compelling acquisitions play a key role in actively shaping our portfolio. The maintenance, repair and overall business is highly attractive delivering above average organic sales growth in the high single-digit territory. With the 2 recent acquisitions, we are expanding our MRO platform by adding competencies in the area of repair and overhaul to our existing portfolio.

Critica Infrastructure is a specialized supplier for innovative composite repair and reinforcement solutions, which will add around EUR 100 million in sales and is growing at a fast pace. With Seal for Life Industries, we acquired a specialized supplier of protective coating and sealing solutions for infrastructure markets. Once the transaction is closed, it will add approximately a further EUR 250 million in sales. With these transactions, we are expanding into sustainability-driven future-oriented growing and profitable markets. Turning now to our Consumer Brands business and major trends that drive growth as we are addressing consumer needs with products that feature superior technologies. Washing at lower temperatures for sure is a trend that many of us already follow today. We are all keen on saving energy and costs. However, at the same time, we don't want to give up on good cleaning performance.

The same applies to hygienic cleanliness. We don't want to be confronted with bad odors coming from washing machines and ending up in our laundry. That is a business where innovative solutions are required and where we already have products in the portfolio we can offer customers today. I come to specific examples just in a minute. When thinking of consumer trends in Hair, for sure 1 major trend is that of gentle hair coloration in order to avoid hair breakage. Healthy hair, including strengthened hair structure, is another trend we see amongst consumers driving demand for products and treatments in this area. Our innovative HaptIQ bonding system, which we are introducing to our formulations, protects and strengthens the natural bonds in hair fibers thus repairing the hair, giving its strength and resilience and protecting it against future damage.

Amongst our fast-growing billionaire brands, Schwarzkopf and Persil, you will find impactful product innovations which address exactly these trends already today and we are continuously investing in value-adding innovations to drive future growth as we speak. And in the meantime, most of you may already know the deep clean formulation of Persil. Its unique enzyme-based formula not only cleans your laundry, but also removes deposits creating bad odors of laundry on laundry and in the washing machine itself. With this new innovative product, we generated double-digit organic sales growth in 2023. Now our category Hair. We recently launched a completely new treatment product called Gliss Night Elixir. This product, which contributed to significant organic sales growth of Gliss Kur last year is quite unique. We are the first company to launch this kind of product creating a new subcategory and we are planning to roll it out in more countries in 2024.

The advanced formula with the HaptIQ bonding system combines both inner and outer hair repair while sleeping, supporting the hair to regenerate overnight. In the professional area, Schwarzkopf BlondMe contributed with double-digit organic sales growth in 2023 addressing the need for general coloration and bleaching solutions with our innovative dual bond technology, which minimizes hair breakage even with high level bleaching. They are just a few selected examples, which showcase the technology expertise we have at Henkel and the vast opportunities which exist to further drive organic growth going forward. I would now like to turn to our global category Hair in more detail. In this category, we are already more advanced with the portfolio optimization measures versus Laundry & Home Care and we see the measures clearly bearing fruit. The numbers speak for themselves.

We saw significant organic sales growth of around 9% in 2023 with a strong contribution from our top brand Schwarzkopf. Volumes showed a positive development and we recorded market share gains for instance in styling with plus 30 basis points year-over-year. For 2024, we expect volumes in hair to remain in the positive territory of course based on the current macroeconomic and market assumptions we have for 2024. Besides driving organic sales growth, we are also looking for attractive opportunities to grow our global key categories via M&A while at the same time strengthening our regional footprint in attractive markets such as the APAC region. The integration of Shiseido Professional in APAC, which we acquired in 2022, is well on track with our R&D expertise now pooled in a new innovation hub in Japan.

And just a few weeks ago, we acquired the salon inspired Vidal Sassoon brand and the related hair care business in Greater China thus addressing a white spot in the premium retail segment, which is shampoos and conditioners plus product around styling and treatment. The business holds a strong position in the Chinese market and generated sales of more than EUR 200 million in fiscal year 2022/2023, The brand holds a strong presence within China's consumer hair care market and exhibits well-established brand fundamentals with significant opportunities to further harness the brand equity in the market. With a strong and successful Hair business globally including Asia, we have developed an in-depth understanding of the intersection between the professional and the retail space. Given this authority in hair, Henkel is well positioned to capture the full potential of the Vidal Sassoon brand.

Alongside a clear strategy to invest into the brand, we have many exciting ideas which we aim to implement to ensure the acquisition is a success, including product relaunches, new innovations to broaden the product portfolio and renewed marketing measures. And we have a strong regional team in both, professional and consumer hair care, with additional expertise from the successful integration of Shiseido Professional. I would now like to give you an update as to where we stand in terms of the merger of the 2 consumer businesses and the integration process. As you all well know, we had defined 2 phases: Phase 1 was a clear focus on optimizing the organizational setup and the portfolio and Phase 2 focusing on the optimization of our supply chain. In the meantime, we have stringently worked on the numerous initiatives and are clearly ahead of the plan, which now also leads to higher net savings.

While we initially had expected to achieve a total of around EUR 400 million in net savings by 2026, we now expect to achieve approximately EUR 525 million and I will elaborate in more detail on the progress we have made within the 2 phases in just a minute. And at the same time, we are also driving investments to accelerate growth, very important. Looking into more detail into the progress we made in Phase I. As already referred to in earlier quarterly calls, we are very well advanced in optimizing the entire organizational setup. This also includes the reduction of headcount by more than 2,000 positions, for which we were able to conclude agreements by the end of last year. Overall, the successful and swift execution will lead to an increase in net savings from initially around EUR 250 million to now around EUR 275 million by the end of 2024 thereof more than EUR 200 million have been already achieved by the end of last year means 2023.

As you all know, Wolfgang and his teams are also stringently working on optimizing the portfolio. In the meantime, around EUR 650 million in sales have either been divested or discontinued. The number of SKUs was reduced by a double-digit percentage rate already. While we are clearly more advanced in the hair category where we already started to see a positive volume development in 2023 as I pointed it out a minute ago, there is still some more work to do particularly in the Laundry & Home Care category, which is why also for 2024 you should still expect some impact deriving from the still ongoing portfolio measures. But be assured we are striving to finalize the portfolio optimization process by the end of this year means end of 2024.

And as promised in our Q3 call, I would like to take and provide you a deep dive now on Phase 2. Focus of the initiated measures is the optimization of our supply chain network, the commercial integration and operational excellence. And to give you further perspective here, we are talking about more than 800 projects which have been launched. We are targeting an average complexity reduction of 25% and have already initiated the reduction by 15% in the first step. So far, for example, we already reduced the number of production lines by around 45 and also the number of contract manufacturers and co-packers by around 100. In addition, we also reduced headcount by around 800 FTEs by the end of 2023. Commercial integration is also progressing as planned. And in the meantime, our 1-1-1 approach meaning 1 order, 1 shipment, 1 invoice is live in 7 countries.

Together, this already led to first net savings deriving from Phase 2 initiatives in 2023 in the magnitude of approximately EUR 80 million. And based on the progress we have made so far already and what we expect from the launch measures still to materialize, we are able to increase our expectations in regard to net savings, which we want to achieve now in full swing by 2026 from initially EUR 150 million to now EUR 250 million. And to give you some more color, we added an overview here including some selected examples. So when referring to commercial integration, we specifically mean the global rollout of our 1-1-1 approach. So far we have implemented this approach in 7 countries and the plan is to continue the rollout country by country and have the process completed by end or within 2025. As a prerequisite, this of course requires the harmonization of systems and logistical processes, which is well on track.

Second part, in order to optimize our supply chain network, we kicked off a large number of large-scale projects in order to respond to the portfolio shifts, accelerate capacity consolidation and leverage synergies from the merger. To give some examples, so far we consolidated the logistics footprint in North America and optimized our production footprint in various regions such as Europe, North America and Latin America as well as IMEA. This also includes the insourcing of contract manufacturing activities for Hair in North America and establishing Latin America as a coloration hub for the Americas. Driving operational excellence: the third part means fostering operational efficiency in all production and logistic processes. Here savings are ahead of our initial ambition due to strong results we achieved with our pilot programs in our larger production sites in the U.S. and in Germany.

We were also able to reduce logistic costs, improve productivity and line utilization in numerous sites and also roll out flagship models in order to further increase efficiency in various sites. It goes without saying that this is a huge task for the entire team, but the progress we have already made so far, the fact that we are ahead of plan plus the positive outcome already reflected in our financials are altogether strong proof points that the strategy is clearly bearing fruit and we are not at the end of this road yet. So wrapping it up, we can state that we are successfully executing on our strategic initiatives and consistently delivering the targeted top and bottom line growth. Besides fostering organic growth, we are also increasingly taking advantage of attractive M&A opportunities, which are adding a total of more than EUR 0.5 billion to group sales when considering Vidal Sassoon, Critica infrastructure and the most recent acquisition of Seal for Life.

Over the past 6 months we thus spent more than EUR 1.5 billion to strengthen our businesses. The Consumer Brands integration is already well advanced and we now expect to achieve higher net savings than originally expected while we keep up with the elevated levels of investments into our brand equity and innovations to drive further growth. While the overall macroeconomic environment remains challenging, we are confident to see continued growth and the further uplift of margins versus the prior year reflecting the progress deriving from the measures we implemented as well as the strength of our portfolio and leading market positions globally. This confidence is also backed by the good start we saw when entering into January and February of 2024. To be more specific, for 2024 we expect organic sales growth of plus 2% to plus 4% and an adjusted EBIT margin of 12% to 13.5% on group level. For Henkel's adjusted earnings per preferred share, we expect an increase in the range of plus 5% to plus 20% at constant currencies.

And with this, let me hand over now to Marco. He will give you some more details on our financial performance of 2023. Marco?
Marco Swoboda
Henkel AG & Co. KGaA - CFO, Executive VP of Finance, Purchasing & Global Business Solutions and Member of Mgmt. Board

Thanks, Carsten. Good morning to everybody also from my side. Let me share some more color on Henkel's business development in fiscal 2023. We delivered very strong organic sales growth of 4.2% driven by both business units. Pricing was the main contributor being up by more than 9% while volumes were below prior year level. M&A had a negative impact on sales mainly due to the divestment of our business activities in Russia in April last year. Foreign exchange were a headwind too mainly due to the depreciation of the euro versus our basket of currencies, including some weakness in emerging market currencies. As a result, group sales in nominal terms remained below prior year reaching EUR 21.5 billion in fiscal 2023. From a regional perspective, all regions contributed to growth except for Asia Pacific. Our largest regions, Europe and North America, showed organic growth of 2.2% and 2.4%, respectively.

The Latin America and IMEA regions each recorded double-digit growth of 11.7% and 24.7%, respectively. Although showing positive organic growth in Q4, sales in full year 2023 in the Asia Pacific region were slightly below the prior year particularly reflecting the continued challenging market environment in China. Now turning to Adhesive Technologies in more detail. Organic sales growth was 3.2% and, as Carsten pointed out earlier, was clearly above what we could see with peers. Strong pricing was a key driver, but also necessary as we still face elevated input cost levels throughout the year as well as inflation, which had to be compensated for. Volumes remained below prior year levels mainly due to demand remaining muted in some key end markets. However, volume development showed a sequential improvement in the course of the year.

Profitability also improved significantly versus prior year. Adjusted EBIT margin came in at 14.7% and is thus 110 basis points above what we had achieved in 2022 mainly driven by significant step-up in gross margin. Looking at the top and bottom line development in the Adhesives business in more detail. What you can see here on this slide is that volume development clearly improved over Q3 and Q4 closing the year reaching slightly positive territory in the fourth quarter. With regard to pricing, keep in mind that particularly in the first half of the year, the pricing carryover impact was more pronounced and gradually decreased in the course of the year. Nevertheless, pricing remained strong and we didn't have to make major price concessions so far. As already mentioned, a key driver for margin improvement both in fiscal 2023 and in particular in H2 was pricing.

However, input costs remained at elevated levels and we also had to compensate for inflation, which is why pricing was crucial. This development also reflects the strength of our business with both the portfolio and strong leading market positions globally. Let me now turn to the performance in the individual business areas where we saw different dynamics. Mobility & Electronics again was the main growth driver with a plus of 8.5%. This increase was first and foremost driven by the automotive and industrial businesses while the electronics business continued to trend below prior year levels reflecting the still subdued market environment, particularly in China. Packaging & Consumer Goods showed a decline of 2.4% on the back of overall softer demand, but also high prior year comparables, which had been driven by an inflated demand resulting from the COVID pandemic at the time.

In addition, demand was subdued in '23 due to lower consumer spend related to inflationary pressure, destocking at customers, less industrial goods being packed and reduced e-commerce shipments. Craftsmen, Construction & Professional delivered growth of 3.4% driven by all businesses despite persisting soft demand in the respective end markets. Overall, a very robust performance of our Adhesive Technologies business in comparison to our relevant end markets and peers and considering the overall still volatile and challenging macro environment, clearly reflecting the strength of our Adhesives business. Turning now to Consumer Brands. The business generated very strong organic sales growth of 6.1%, which was driven by double-digit pricing of more than 12%. Volumes decreased by 6.3%.

The volume development, however, showed a continued sequential improvement in both Q4 versus Q3 and Q3 versus Q2, which I would like to elaborate on in more detail on my next slide. Profitability also significantly improved by 220 basis points versus prior year level reaching 10.6% in the full year. I already referred to the very strong organic sales growth we saw in the Consumer business, which was first and foremost driven by strong double-digit pricing. Volumes were still negative being down 6.3% when looking at full year 2023. However, as just mentioned, volume development showed a clear sequential improvement as we had anticipated in our last call. We reached flat levels in Q4 and even slightly positive levels towards year-end when considering the continued impact from the still ongoing portfolio measures.

Portfolio measures and trade negotiations together made up for around 3.5 percentage points of the total volume decline in 2023 and roughly 3 percentage points when considering Q4 stand-alone. In line with expectations, the negative impact from trade negotiations clearly decreased in Q4. And as you know, we are still in the process of shaping our portfolio, eliminating low growth and low margin business and refocusing on the faster and more profitable parts. We already see that these measures are bearing fruit, particular when looking at the Hair category where we are clearly more advanced compared to Laundry & Home Care and where volume development already clearly reached positive territory in Q3 and Q4 last year. This is a strong proof point that our strategy is paying off.

Entering into 2024, you should continue to expect an impact on volumes clearly to a lesser degree while we currently focus our activities more pronouncedly on the Laundry & Home Care category. At the same time, we will continue to price where needed to compensate for still elevated input cost and inflation. In addition, we are driving the valorization of our portfolio with the strong brands we have. In parallel, we will keep up with the elevated levels of investments in marketing and advertisement to strengthen brand equity. The significant step-up in our margin was driven by a full area of measures enhancing our adjusted gross margin and EBIT margin. Strong double-digit pricing benefits from the already mentioned portfolio measures and cost of goods savings measures contributed to the positive development.

In addition, the development was further supported by positive mix impact as we saw significant growth in Hair and accelerated net savings deriving from the merger of the 2 consumer businesses. Lastly, the significant step-up was achieved despite increased investments in marketing and the fact that we exited Russia where 2/3 of the business related to consumer and which was over-proportionately profitable. Now turning to the performance by business area with focus on Laundry & Home Care and Hair. Laundry & Home Care delivered very strong organic sales growth of 5.5% to which both Laundry Care and Home Care contributed with Fabric Care, Fabric Cleaning and Dishwashing clearly standing out. The Hair business area, which comprises both the professional and consumer business, grew by almost 9%.

Within the Hair business area, the Consumer Hair business clearly stood out and recorded a double-digit increase mainly backed by styling and coloration. Also our professional business developed successfully achieving very strong growth. Wrapping it up, Henkel delivered a very strong top line performance in both Adhesive Technologies and Consumer Brands in 2023. Turning back to the group level, I would like to elaborate on the components of the adjusted income statement. We significantly improved our adjusted gross profit, which had been impacted by the severe input cost headwinds we faced in 2021 and 2022 thanks to strong pricing. In order to further compensate for the still elevated input costs, ongoing measures to reduce costs and enhance production and supply chain efficiency and the ongoing portfolio optimization measures, we now reach a level of 45.7%, which represents an increase of 340 basis points.

Marketing, selling and distribution expenses increased as a percentage of sales to a level of 26.3%. While we generated savings in SG&A deriving from the Consumer Brands merger and benefited from more favorable logistics cost, we significantly stepped up marketing spend in the Consumer Brands business in order to strengthen brand equity. R&D and admin expenses have increased slightly with a relative impact amounting to 2.7% and 4.9%, respectively. Other operating income and expenses had a rather neutral impact as a percentage of sales. As a result, the adjusted EBIT margin showed a strong increase by 150 basis points up to a level of 11.9%. Moving on to the bridge from reported to adjusted EBIT. At around EUR 2 billion, reported EBIT was up by more than 11% compared to the previous year level.

Onetime of around EUR 4 million resulted from smaller divestments. Onetime expenses of around EUR 280 million are mainly related to the divestment of the business in Russia, which we concluded in April. Restructuring charges amounted to around EUR 270 million with the majority related to the merger of our consumer business as well as to the further optimization of our production and distribution structures in both businesses. As a result, adjusted EBIT came in at around EUR 2.6 billion and thus more than 10% above prior year level. Now taking a closer look at the bridge leading to the adjusted EPS. The adjusted financial result amounted to around minus EUR 85 million and thus slightly below prior year level. Taxes on income amounted to EUR 630 million, which equals to an adjusted tax rate of 25.5%.

Noncontrolling interest amounted to EUR 22 million leading to an adjusted net income attributable to shareholders of EUR 1.8 billion. This translates into adjusted earnings per preferred share of EUR 4.35. This represents a significant increase by 11.5% year-over-year or at constant exchange rates even a strong plus of 20%. On to our cash KPIs. Net working capital as a percentage of sales decreased by 190 basis points to a level of 2.6% mainly due to low inventories driven by price and volume effects. We significantly improved our free cash flow to around EUR 2.6 million thus reaching a new all-time high reflecting the strong increase in the operating cash flow from both better operating profit and better net working capital cash flow. As a result, our net financial position turned slightly positive. Overall, very solid financials that allow us to further invest in initiatives to accelerate growth.

Since the beginning of the year, we have already invested more than EUR 1 billion in attractive M&A targets. In addition, our strong financial position allows us to pay an attractive dividend. Looking at the macroeconomic environment. The global economy will continue to grow although at a moderate pace. Global GDP is forecasted at around 2.5% for 2024. Industrial production is expected to expand by roughly 2%. Consumer spending is expected to increase by roughly 2.5%. We're also still facing elevated inflation rates and interest levels globally. When it comes to currencies, we expect markets to remain highly volatile. At the same time, we see the situation in global supply chains and commodity markets improving. Specifically, input costs are partly easing. For some raw materials, prices have come down. However, for some of the products we purchase, we still experience elevated price levels.

Overall, we expect our input costs to remain on stable levels. Also we continue to expect an impact from wage inflation and still elevated energy cost. Turning to the more specific performance drivers relevant for our businesses. Looking at overall automotive production. Build rates are stabilizing and expected to continue above pre-COVID levels of 2019 while staying below all-time high levels. In addition, key customer wins from 2023 will also fuel growth for Henkel going forward. When it comes to the Industrial segment, we expect mixed market dynamics while in electronics, we see signs of positive developments and stabilizing markets in APAC. In Packaging & Consumer Goods, it's all about strengthening our market position in a competitive environment while expanding our sustainability-driven portfolio.

Turning to our Consumer Brands business. Growth is expected across the global active segments in Laundry & Home Care and Hair. We will continue to build on a strong brand portfolio with consumer relevant innovations and keep up with strong media support at elevated levels to drive growth and gross margins. Furthermore, as elaborated earlier, we expect further savings from the Consumer Brands merger. In addition, we also expect to realize first contributions from our recent acquisitions in both businesses. For 2024, we expect further growth for both top and bottom line. For the group, we expect organic sales growth of 2% to 4%. The same ranges apply to both business units, respectively. Let me provide some more color on our price/volume expectations in 2024. For Adhesive Technologies, we expect a more balanced split of price and volume growth.

Pricing should remain positive despite a certain price pressure in our markets. When it comes to volume development, we expect a further sequential improvement in the course of 2024. For Consumer Brands, the focus on pricing remains and should be seen in the context of the ongoing valorization process of our portfolio. This is part of our strategy. When it comes to volume development in consumer in 2024, we expect to reach flat to perhaps even slightly positive territory when excluding the negative impact from still ongoing portfolio measures. When it comes to the adjusted EBIT margin, we anticipate further contributions from the successful execution of our strategic and operational initiatives while input costs are expected to remain stable. For the full year, we expect adjusted EBIT margins for the group between 12% to 13.5%.

For Adhesive Technologies, we expect the adjusted EBIT margin to be between 15% and 16.5% and for Consumer Brands between 11% and 12.5%. Please also bear in mind that in 2024, there will be no positive contribution from Russia as we exited the business in April 2023. Last year Russia contributed roughly 40 basis points to group margin with an even more pronounced impact on our Consumer Brands business. With regard to FX, we anticipate a mid single-digit negative impact on sales from currencies. The impact on bottom line is expected to be slightly more pronounced and not as strong as last year. For the development of our adjusted EPS at constant exchange rates, we expect an increase in the range of 5% to 20%. So overall, we are confident to generate further growth and to deliver a further improvement in earnings compared to the prior year.

And with that, I would like to hand over back to you, Carsten.
Carsten Knobel
Henkel AG & Co. KGaA - CEO & Chairman of the Management Board - Henkel Management AG

Thank you, Marco. So let me summarize today's key takeaways. We sustained Henkel's growth momentum with very strong organic top line performance, which was supported by both business units. We were able to significantly recover our profitability, gross profit and EBIT margin significantly improved versus prior year levels. For sure clear proof points that our measures are bearing fruit. And at the same time, we continue to invest in growth also by stepping up marketing activities in price sensitive consumer markets, supporting the improved sequential volume development and investing in R&D and innovations. And while managing our business in a fast evolving and challenging environment, we are successfully executing on our strategic priorities, including the Consumer Brands merger, with clear proof that we are ahead of plan and now expect even more savings ongoing forward particular from the Phase II.

In addition, we are allocating more focus on attractive M&A opportunities. We are successfully expanding the attractive MRO platform in our Adhesives business and also strengthening the 2 global categories in our consumer business as well as our footprint in the APAC region. Over the past 6 months, we already invested more than EUR 1.5 billion in attractive targets. And last, but not least, we released our full year guidance for 2024 this morning, which reflects further growth expectation both for top and to bottom line and we are confident that we have the right strategy, the portfolio and the capabilities at Henkel to deliver on our targets both short term, but also mid to long term.

And with that, let us move to the Q&A, Marco and I are looking forward to take your questions.

Questions & Answers

Operator

(Operator Instructions) Our first question comes from the line of Guillaume Delmas, UBS.

Guillaume Gerard Vincent Delmas
UBS Investment Bank, Research Division - Analyst

One housekeeping question for me and then 2 questions. The point of clarification is on your foreign exchange guidance so for a mid single-digit headwind. Is it for both sales and EPS or could it be, as things stand today of course, a greater headwind on EPS? And then my 2 questions. So the first one is on your adjusted gross margin, it reached 46.8% in the second half of last year. My question is based on your direct material outlook and your savings program, would it be fair to assume that you can still improve significantly your gross margin from this 46.8% level in 2024? And I guess bigger picture if I look at the past decade, your best gross margin was in [2016] 48.5%. Do you think that given the mix of your business today, returning to this level or even overshooting this level maybe not in 2024, but over time, would it be one of your objectives? And then finally, my second question on the pricing outlook for 2024. We've heard from some of your competitors particularly in adhesives, they were guiding for negative pricing yet Marco in the guidance, you seem confident about pricing remaining in positive territory in Adhesives in 2024. So wondering what underpins your confidence in limited pricing concessions.

Carsten Knobel
Henkel AG & Co. KGaA - CEO & Chairman of the Management Board - Henkel Management AG

Guillaume, I take the question 2 and 3 and Marco will then come back to the FX point. So the first point on the adjusted gross margins and the reference what you made, I can be very short. It's a fair statement by yourself and for sure also integrated in our plans for the year 2024 that we have a clear point of further improving our gross margins and that's part of our guidance despite the fact that we are not guiding explicitly on gross margin. But it will support also the 12% to 13.5% EBIT margin development. So yes, that's fair and that's also fair for both businesses. That's fair for our HCB business, but also for Henkel Adhesives business. And the most important point for me here is the cycle in which we are getting in, which also this higher gross margin allows us to further invest in our company and at the same time improving the bottom line.

So that's on your question related to the gross profit. When it comes to pricing here and I think you were specifically on the Adhesives business. So it's very clear also here, overall we expect a more balanced split of price and volume for Adhesives Technologies. That means pricing should remain positive despite a certain price pressure in our markets and when it comes to the volume development, we expect a further sequential improvement in the course of 2024. We already talked today about that we said in our Q3 call that we are striving in Q4 for a slight positive or flat development in volume for Adhesive Technologies and we delivered on that with the 0.2% what you see in volume and the 2.6% in pricing and that's a clear point.

And the point is we attract -- well, we have been attracting a lot of customer wins at the end of 2023 with impact in 2024 and that is also one of the points why we are expecting a positive pricing and volume for both parts. And that's not only valid for 2024 because part of the wins which we are making are related to industries where you have also longer-term impact not only a year because you have won certain pitches in that context. I hope that clarifies the gross profit and the pricing. And Marco, maybe you clarify -- you already did it in your speech, but maybe it's good to emphasis again on that topic of FX in terms of impact on top and bottom line.
Marco Swoboda
Henkel AG & Co. KGaA - CFO, Executive VP of Finance, Purchasing & Global Business Solutions and Member of Mgmt. Board

Guillaume, so your question on FX. So we basically said that we anticipate a mid single-digit negative impact on sales on top line and the impact on the bottom line is expected to be slightly more pronounced. So a bit higher, but not as strong as last year.

Operator

The next question comes from the line of Christian Faitz with Kepler Cheuvreux.

Christian Faitz
Kepler Cheuvreux, Research Division - Equity Analyst

Two questions, please. First of all, why keep the dividend just "stable" with such a comfortable cash flow and stat situation? And my second question is the roughly EUR 350 million of sales of flatter performing products in Consumer Brands that still are to be divested as part of your EUR 1 billion portfolio measure program. Can you give us a rough idea of what time frame we are looking at when the remaining divestments are announced?

Carsten Knobel
Henkel AG & Co. KGaA - CEO & Chairman of the Management Board - Henkel Management AG

Christian, so maybe starting with the dividend part and I start a little bit earlier now, earlier means going back. You know that we are one of the founding members of the DAX before the DAX 30 and now DAX 40. And there has been not one single year since 1985 since Henkel has ever decreased the dividend means it has been always either stable or increasing. And also in the very difficult years related to COVID or the Russian war or the supply chain disruptions, we have been always stable while you have seen with a lot of other companies a quite volatile situation of the dividend proposal. By that we even went above our target range of the 30% to 40% range, which is a very attractive one, and we went above that because in order to give our shareholders a stable and sustainable solution related to that.

And that means that we are trying to get back into that corridor again. Therefore, you see still a very attractive dividend for this year being stable and on top. I think it's very clear we want to invest in our business as well. And when it comes to capital allocation, you have seen what we announced the last couple of months with the last 3 acquisitions over the last 4 months spending more than EUR 1.5 billion. Why? Because we want to foster growth of our company, also related to the scale loss we had with the exit of Russia with EUR 1 billion business in that. And after this long answer, I hope that helps and clarifies. Marco, are you open to take the portfolio question of Christian?

Marco Swoboda
Henkel AG & Co. KGaA - CFO, Executive VP of Finance, Purchasing & Global Business Solutions and Member of Mgmt. Board

Sure. Christian, so your question was on the remaining EUR 350 million of sales that we put under review in Henkel Consumer Brands and your question was on which time frame. So basically that comprises, as you know, 2 parts; the discontinuations, but also divestments. On the discontinuations, we strive for completing that by end of '24, i.e., end of this year with the portfolio optimization, in particular focusing on Laundry & Home Care. On the divestment side, please understand we don't guide on the specific timeline as we need to make sure that we can realize sufficient value, i.e., sufficient selling prices. But for sure be assured from my point, I would like to finish that also rather sooner than later.

Operator

The next question comes from the line of Iain Simpson with Barclays.

Iain Edward Simpson
Barclays Bank PLC, Research Division - Analyst

Firstly, just on volume and apologies if this has already been answered. Could you just remind us how we should be thinking about an all-in Consumer Goods volume number in '24? Now you've clearly said that it will be flat or positive before portfolio measures. You've said that you hope to complete that outstanding EUR 350 million of portfolio measures by the end of this year. But depending on when in the year that happens will obviously kind of move the full year volume number. So I was just hoping if you could give us a little bit of help as to how we should think about that reported volume number in consumer for this year?

And secondly, the cash conversion is incredibly impressive to deliver what's basically sort of 130% cash conversion in terms of EUR 2.6 billion free cash flow on EUR 1.8 billion of adjusted net income. I wondered if I could just dig a little bit into the moving parts there. So it looks like your cash tax was quite a long way below your P&L tax. Just wondered if you could give any color on what's going on there and how to think about that going forwards? Net working capital you've covered, but there also seems to be a EUR 300 million-plus inflow from changes in other liabilities provisions. Any color there would be welcome. I'm just trying to get a sense as to how we should think about cash conversion over the coming years and any commentary on likely free cash flow in '24.

Carsten Knobel
Henkel AG & Co. KGaA - CEO & Chairman of the Management Board - Henkel Management AG

The good thing as a CEO is you can take the point who takes what question. Anyway your second question is, I would say, a preferred question to Marco so Marco will take the second one and the first one I will take, the volume one. So first of all and I start again in Q4. We told you what we want to do. We promised certain things and we delivered. That means for Adhesives, we said for Q4 we see a slight positive volume in Q4 and you see that in Q4. And in HCB, we said we are going towards the end of the year into flat to positive territories taking into account the portfolio measures and we delivered on that. So I think I already answered for 2024 how the situation in Adhesive Technologies is with a more balanced view between pricing and volume. So continuation of that positive volume trend, which we experienced in Q4 already and this is also something what we expect for the full year.

Now moving to your volume question in the HCB sector for 2024. You already saw in the Hair Care category that we started to see positive volume development in 2023. We also were going to that point during the presentation and also market share gains in styling while in Laundry & Home Care, the portfolio moves we started a little bit later in terms of the optimization measures. And thus in 2024, the ongoing portfolio optimization will be more pronounced in that category and it goes without saying that we will have an impact on volumes and on market shares here in 2024. Going back to the Hair part, the volumes in Hair we also foresee what we experienced in 2023, a positive territory for the volumes. So at the same time, you have heard that we have been discontinuing and divesting businesses of around EUR 650 million in sales. So the remaining EUR 350 million are under review.

And the statement of Marco was predominantly meant on the discontinuation part that we want to close that until the end of 2024 as we are not making any confirmation on divestments because it's as always difficult to say when a certain topic comes to the conclusion. So it is very clear that we are on that journey and this journey is by no means at the end. We will continue to work on shaping our portfolio, investing in the brand equity and in the innovations in the upcoming quarters. And we are very confident that this will lead us to an even more profitable and faster growing business going forward because the measures which we are taking are taking out portfolios, which are either not growing or having as a second part not really a good profitability. And I hope that clarifies the whole situation in that context. And we are really positive that what we are promising the plan what we are having is executed. And with this, handing over to Marco for the cash conversion question related to the free cash flow.
Marco Swoboda
Henkel AG & Co. KGaA - CFO, Executive VP of Finance, Purchasing & Global Business Solutions and Member of Mgmt. Board

So Iain, let me try to answer that question on the cash flow. I mean what is clear, the free cash flow has been growing significantly and that is a strong increase coming from the operating cash flow and that is driven by better operating profits. You could also see that the EBITDA has moved considerably up. But the second component that was also pretty pronounced was a better net working capital cash flow. And in '23, we recorded a cash flow from working capital that was very, very strong and that is a bit of a rebound compared to what we have seen in last year driven by much better inventory levels that had a price component as well as a volume component and the volume component was also influenced by lot of measures driving also down volumes in regards to better efficiencies.

So during COVID there was a lot of safety stocks built in. I think that has normalized also in the course of the year. So on working capital flows, clear rebound. And then on the taxes, we also saw lower cash outflow from taxes for example and that was also partly extraordinary some refunds received in 2024 and some inflows on other tax receivables that also helped us a bit. And that other tax receivable that related to VAT that is included also in the net working capital and other components line of the cash flow statement. So a couple of extraordinary impacts for sure on 2023 that won't automatically repeat, a bit of rebound of the rather low cash flow we had in 2022. Overall, we think that the free cash flow will normalize. We don't guide for a specific number, but it's clear that 2023 was rather extraordinary due to the reasons mentioned.

Operator

The next question comes from the line of David Hayes with Jeffries.

David Hayes
Jefferies LLC, Research Division - Equity Analyst

If I could be slightly cheeky and ask 2 follow-ups and 2 actual questions. Just on the follow-ups. On FX, you mentioned not as bad as last year. Can I just clarify do you mean the leverage effect on FX is not as bad as last year? I think 4.3% of sales is about 7% operating profit impact. So is it the absolute level or the leverage effect that's less significant? And then just following up on the SKU rationalization, you say divestments and discontinued. I know the timing is obviously sensitive, you made the point. But can you give us a sense of whether divestments will be 50% and discontinued about 50% just so it comes on the quantum of what that EUR 350 million is made up by.

And then on the 2 questions, the consumer volumes in the fourth quarter down over 2%. Are there any areas of disappointment that you'd call out that's slower to recover in terms of either category and/or region and where you expect most improvement therefore in 2024? And then my final question is on marketing spend. I know you don't give that explicitly, but I think you can give us a bit of a sense of where marketing was up in '23, what sort of percentage and maybe what that is versus 2019 roughly as a base point and then similarly whether the budget for '24 is a similar increase as '23 or whether that now fades a little bit because a lot of that marketing spend increase has got to a more optimal level?

Carsten Knobel
Henkel AG & Co. KGaA - CEO & Chairman of the Management Board - Henkel Management AG

David, so I'll let Marco talk about the FX question and I take first the volume part and then also the marketing spend. So I already talked quite a lot about the volume development. In line with the previously communication, volumes further improved. As I mentioned that sequentially during the year and especially also Q4 versus Q3 in both businesses and we reached the flattish territory taking the portfolio of things into account for the HCB business. And we're considering that this volume will be also, as we mentioned before, taking the portfolio effects into account also positive, slightly positive or flattish to slightly positive in 2024. And for sure it is related to the portfolio measures. And I hope you understand I will not disclose now on a regional basis where we're taking this portfolio measures at this point of time. And therefore, these measures which are still quite significant in the Laundry & Home Care part for 2024 will have then the impact on the volume development. To your question to the marketing spend, as you pointed out, we're not disclosing that now, but you made the reference to 2019.

And here I can tell you for 2023 in absolute, but also in relative terms, we have been significantly above the level what we have seen between 2015 and 2019, 2020. You know that we made the first margin reset in 2020 where we also related that to more investment which we did. We have seen a double-digit increase in 2023 versus 2022 for the marketing spend. And in your question of 2024 or to your question for 2024 while not disclosing the detailed numbers, but for sure our approach is that we will keep up with this level what we have seen in 2023. And another part is also driven by the valorization of our HCB portfolio bringing more value and we're supporting these for sure valorization activities also with more support on that. And you know with the portfolio measures, we have less brands, we have less activities and by that, we can spend the money what we're having on these lesser or fewer brands and by that have a more significant impact on that. I hope David, that clarifies. And with this, handing over to Marco for the FX part.

Marco Swoboda
Henkel AG & Co. KGaA - CFO, Executive VP of Finance, Purchasing & Global Business Solutions and Member of Mgmt. Board

David, so on the FX, I try to respond to that. So on FX side we actually said that we do expect roughly order of magnitude mid single-digit effect on the top line and that part, as you can imagine, is actually quite hard to predict. That's our assumption that we have made now also based on the high volatility we have seen also in the last years. So mid-single digit roughly on the top line and a bit more pronounced on the bottom line. So that's what we can say to currencies. But again I think to able to really forecast currencies actually well is quite unique. So I think you need to take an assumption that is now ours based on the last year's experiences.

Operator

Today's last question comes from the line of Victoria Petrova. Bank of America.

Victoria Petrova
BofA Securities, Research Division - Head of European HPC, Food & Tobacco and Research Analyst

I have 2 short questions. My first one is again on your organic growth guidance of 2% to 4% and my understanding is that volumes in Adhesives would be positive and ex-portfolio would be positive in Consumer Brands. You have talked about valorization about the mix. What was approximately the mix impact on organic growth in 2023 and should we expect an acceleration of mix contribution in Consumer Brands specifically? And maybe if you could elaborate on Adhesives as well, that would be great, how we should think about it into 2024?

My second question is again on free cash flow generation, flat dividend and over EUR 1 billion investments already in 2024. How should we think about your M&A strategy? You obviously have Critica Infrastructure and Seal for Life industries, you have Shiseido and Vidal Sassoon. My understanding is that a lot of adhesive acquisitions are very welcome. On Consumer Brands, it's a little bit of subject of the brands you're acquiring and how fast and profitably you could integrate them. Could you maybe elaborate a little bit on your priorities in 2024? Should we expect more Adhesive acquisitions? And also what is your main KPI for Vidal Sassoon acquisition in 2024?

Carsten Knobel
Henkel AG & Co. KGaA - CEO & Chairman of the Management Board - Henkel Management AG

Victoria, I take the 2 questions. So first one on OSG, the 2% to 4%. You have also seen that the midpoint of that is slightly or is ahead or above the current consensus. So I think we are very positive on our organic sales growth going forward. Your question on the valorization or better to say on the mix part, I ask for your understanding that we are not disclosing the exact numbers. But what I can tell you is that there is for sure a mix, a positive impact because of our Hair contribution that the Hair part, as I mentioned before, is already driving or delivering better results also with positive volumes what we just said for 2023. And for sure also in general the portfolio measures are paying off in the direction of heading more towards more and better mix in that context. When it comes to your second question on M&A, I think you said everything in terms of what is right.

When it comes to 2024, you asked for priorities and while I was in the past -- in the past, I mean in last year in terms of first, we need to do our homework in HCB in terms of executing the portfolio measures, bringing the strategy into execution, bringing everything into life. I think 2023 has shown that we have made significant steps forward in terms of executing synergies, bringing the organization into the right setup. So from that point of view, HCB is also well positioned to take also further M&A activities. Therefore, there is going forward to 2024 no big difference between HCB and Henkel Adhesives. In that context, it is now really the point of what are attractive targets and what is really on our list and the negotiation. So there is no prior angle in Adhesive Technologies. You have seen we are moving also a little bit more into adjacencies. A good example is the platform we have now created with MRO; maintenance, repair overall; taking our own business and adding 2 with Critica and with Seal for Life 2 great examples on that.

And it's for sure also important that we want to expand our regional footprint and this is something, which is more valid for HCB and that's also why you see Shiseido and Vidal Sassoon both in our 2 global categories and they're also in a highly attractive growing market of Asia. And that's also the reason because you asked also for Vidal Sassoon. Vidal Sassoon I think has a great brand equity, is absolutely fitting in the world between professional and retail. That's something where our strength is definitely existing with Schwarzkopf and all the other brands playing in both segments and that helps us and that supports us also here in the priorities for that end. I have also to say the acquisitions are margin accretive, which we did in that context and that is our strategy. So no big differences in priorities between HAT and HCB for 2024 and going forward. I hope that clarifies, Victoria.

Operator;Carsten Knobel
Henkel AG & Co. KGaA - CEO & Chairman of the Management Board - Henkel Management AG

Ladies and gentlemen, that was the last question. I would now like to turn the conference back over to Mr. Knobel for any closing remarks.